

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### September 2008: budgetary deficit of \$0.4 billion

There was a budgetary deficit of \$0.4 billion in September 2008, compared to a surplus of \$11 million in September 2007. Budgetary revenues were down \$0.1 billion, or 0.6 per cent, from September 2007, as higher personal income tax revenues were offset by lower corporate income tax and goods and services tax (GST) revenues. Program expenses increased by \$0.4 billion, or 2.6 per cent, compared to September 2007, reflecting higher transfer payments and operating expenses of departments and agencies. Public debt charges decreased by \$0.2 billion compared to September 2007.

### April to September 2008: budgetary surplus of \$0.8 billion

For the first half of the 2008–09 fiscal year, the budgetary surplus is estimated at \$0.8 billion, down \$5.8 billion from the \$6.6-billion surplus reported in the same period of 2007–08. Budgetary revenues increased by \$0.6 billion, or 0.5 per cent, primarily reflecting growth in personal income tax and other revenues, offset by declines in corporate income tax and GST revenues. Program expenses were up \$6.8 billion, or 7.4 per cent, due to higher transfer payments and operating expenses of departments and agencies.

Program spending growth has been relatively strong so far this year but began to moderate in September. This moderation in spending growth is expected to continue in the second half of the year, reflecting the spending pattern in 2007–08, when program spending in the early months of the year was low, then rose in the second half of the year.

Public debt charges were down \$0.4 billion on a year-over-year basis, reflecting a lower average effective interest rate on the stock of interest-bearing debt.

The results to date are reflected in the fiscal outlook in the 2008 *Economic and Fiscal Statement*.

### September 2008

There was a budgetary deficit of \$0.4 billion in September 2008, compared to a surplus of \$11 million in September 2007.

Budgetary revenues fell by \$0.1 billion, or 0.6 per cent, to \$18.6 billion.

- Personal income tax revenues rose \$0.8 billion, or 8.6 per cent.

- Corporate income tax revenues were down \$0.4 billion, or 17.6 per cent.
- Other income tax revenues—withholdings from non-residents—were down \$0.1 billion, or 19.8 per cent.

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.



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- Excise taxes and duties were down \$0.1 billion, or 2.7 per cent, driven by lower GST revenues. GST revenues declined by \$0.3 billion, or 11.1 per cent, due in part to the 1-percentage-point reduction in the GST rate effective January 1, 2008. The decline in GST revenues was partially offset by increases in customs import duties (up \$36 million) and sales and excise taxes (up \$0.2 billion). Revenues from the Air Travellers Security Charge were virtually unchanged.
- Employment Insurance (EI) premium revenues were largely unchanged from a year ago, as gains in employment and wages and salaries offset the decline in the premium rate from \$1.80 to \$1.73 per \$100 of insurable earnings effective January 1, 2008.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were down \$0.2 billion, or 11.3 per cent. Other revenues (and corresponding operating expenses) in September 2007 have been reduced by \$0.3 billion to reflect certain internal government transactions in a manner consistent with September 2008.

Program expenses in September 2008 were \$16.4 billion, up \$0.4 billion, or 2.6 per cent, from September 2007, reflecting higher transfer payments and operating expenses of departments and agencies.

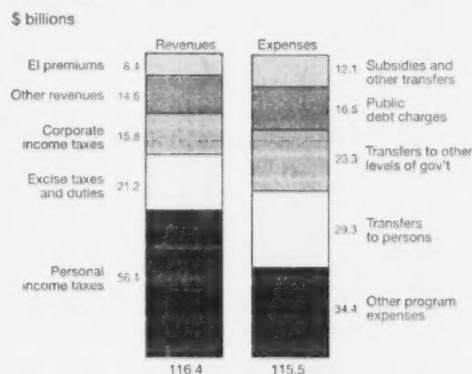
In September 2008 transfer payments were up \$0.2 billion, or 1.7 per cent, from September 2007.

- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by \$0.4 billion, or 8.0 per cent. Elderly benefits increased by \$0.1 billion and EI benefits by \$0.3 billion. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit, remained stable.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were down \$0.1 billion, or 3.3 per cent.
- Subsidies and other transfers decreased by \$0.1 billion, or 2.3 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses rose \$0.2 billion, or 4.6 per cent, over the prior year.

Public debt charges declined \$0.2 billion compared to September 2007.

**Revenues and expenses**  
(April to September 2008)



## April to September 2008

Through the first six months of the 2008–09 fiscal year, there was a budgetary surplus of \$0.8 billion, down \$5.8 billion from the \$6.6-billion surplus reported during the same period of 2007–08.

Budgetary revenues increased by \$0.6 billion, or 0.5 per cent, to \$116.4 billion.

- Personal income tax revenues rose \$2.8 billion, or 5.2 per cent, roughly in line with growth in wages and salaries.
- Corporate income tax revenues were down \$2.0 billion, or 11.0 per cent. This decline reflects the impact of the 1.5-percentage-point reduction in the general corporate income tax rate and the elimination of the corporate surtax in 2008, as well as weaker economy-wide profitability.
- Other income tax revenues rose \$0.1 billion, or 2.7 per cent.
- Excise taxes and duties decreased by \$1.2 billion, or 5.2 per cent. GST revenues were down \$1.5 billion, or 9.9 per cent, reflecting the 1-percentage-point reduction in the GST rate effective January 1, 2008. Customs import duties increased by \$0.1 billion, sales and excise taxes by \$0.2 billion, and revenues from the Air Travellers Security Charge by \$3 million.

- EI premium revenues were down \$21 million, as the decline in the premium rate from \$1.80 to \$1.73 per \$100 of insurable earnings, effective January 1, 2008, was largely offset by gains in employment and wages and salaries.

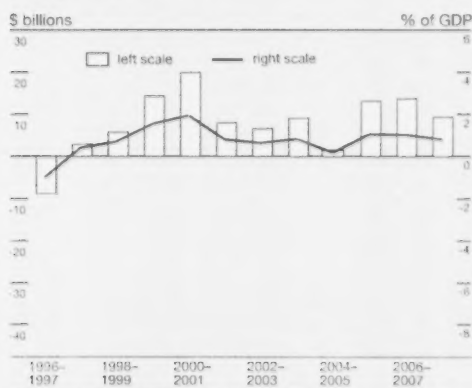
- Other revenues rose \$0.8 billion, or 7.5 per cent.

Program expenses for April to September 2008 were \$99.1 billion, up \$6.8 billion, or 7.4 per cent, from the same period last year, reflecting higher transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Transfer payments for April to September 2008 were up \$4.5 billion, or 7.4 per cent, from the same period last year.

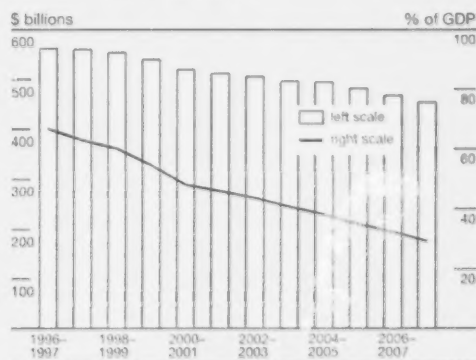
- Major transfers to persons were up \$0.9 billion, or 3.3 per cent. Elderly benefits increased by 3.4 per cent and EI benefits by 5.8 per cent. Children's benefits remained stable compared to the same period last year.
- Major transfers to other levels of government were up \$1.4 billion, or 6.6 per cent, reflecting legislated growth in the Canada Health Transfer, Canada Social Transfer and Equalization.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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- Subsidies and other transfers were up \$2.1 billion, or 20.9 per cent, mainly reflecting increases in payments related to infrastructure and higher transfers to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords.

Other program expenses increased by \$2.4 billion, or 7.4 per cent, from last year's level.

Public debt charges decreased by \$0.4 billion, or 2.6 per cent, reflecting lower interest rates.

### **Financial requirement of \$15.9 billion for April to September 2008**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$0.8 billion and a requirement of \$16.7 billion from non-budgetary transactions, there was a financial requirement of \$15.9 billion in the April to September 2008 period, compared to a financial source of \$13.4 billion in the same period last year. This difference reflects the financial requirement associated with higher refunds for the 2007 tax year related to the tax cuts announced in the October 2007 Economic Statement and loans to major Crown corporations. The increase in these loans reflects the Budget 2007 announcement that the Government would meet all of the borrowing needs of the Business Development Bank of Canada, Canada Mortgage and Housing Corporation and Farm Credit Canada through direct lending to these Crown corporations in order to reduce overall borrowing costs and improve the liquidity of the government securities market.

### **Net financing activities up \$12.5 billion**

The Government financed this financial requirement of \$15.9 billion by increasing market debt by \$12.5 billion and reducing cash balances by \$3.5 billion. The increase in market debt was achieved largely through the issuance of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of September 2008 stood at \$7.8 billion, \$4.6 billion above their level at the end of September 2007.

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Table 1

## Summary statement of transactions

	September		April to September	
	2007	2008	2007-08	2008-09
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	18,724	18,619	115,786	116,350
Expenses				
Program expenses	-16,006	-16,429	-92,261	-99,095
Public debt charges	-2,707	-2,546	-16,896	-16,451
Budgetary balance (deficit/surplus)	11	-356	6,629	804
<b>Non-budgetary transactions</b>	5,037	4,031	6,744	-16,746
<b>Financial source/requirement</b>	5,048	3,675	13,373	-15,942
<b>Net change in financing activities</b>	-11,663	-5,136	-31,428	12,464
<b>Net change in cash balances</b>	-6,615	-1,461	-18,055	-3,478
<b>Cash balance at end of period</b>			3,154	7,765

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	September			April to September		
	2007	2008	Change	2007-08	2008-09	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,813	9,567	8.6	53,554	56,357	5.2
Corporate income tax	2,502	2,062	-17.6	17,786	15,831	-11.0
Other income tax	479	384	-19.8	2,600	2,669	2.7
Total income tax	11,794	12,013	1.9	73,940	74,857	1.2
Excise taxes and duties						
Goods and services tax	2,840	2,524	-11.1	15,281	13,771	-9.9
Customs import duties	312	348	11.5	1,927	2,070	7.4
Sales and excise taxes	855	1,027	20.1	4,963	5,167	4.1
Air Travellers Security Charge	30	29	-3.3	198	201	1.5
Total excise taxes and duties	4,037	3,928	-2.7	22,369	21,209	-5.2
Total tax revenues	15,831	15,941	0.7	96,309	96,066	-0.3
<b>Employment Insurance premiums</b>	996	995	-0.1	8,414	8,393	-0.2
<b>Other revenues</b>	1,897	1,683	-11.3	11,063	11,891	7.5
<b>Total budgetary revenues</b>	18,724	18,619	-0.6	115,786	116,350	0.5

Note: Totals may not add due to rounding.

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Table 3

## Budgetary expenses

	September		Change	April to September		Change
	2007	2008		2007-08	2008-09	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,645	2,750	4.0	15,738	16,275	3.4
Employment Insurance benefits	960	1,217	26.8	6,668	7,052	5.8
Children's benefits	972	974	0.2	5,993	6,017	0.4
Total	4,577	4,941	8.0	28,399	29,344	3.3
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,779	1,886	6.0	10,674	11,315	6.0
Canada Social Transfer	932	880	-5.6	4,849	5,279	8.9
Total	2,711	2,766	2.0	15,523	16,594	6.9
Fiscal transfers	1,266	1,272	0.5	7,276	7,646	5.1
Canada's cities and communities	196	0	n/a	582	481	-17.4
Alternative Payments for Standing Programs	-261	-254	-2.7	-1,521	-1,420	-6.6
Total	3,912	3,784	-3.3	21,860	23,301	6.6
Subsidies and other transfers						
Agriculture and Agri-Food	153	276	80.4	589	688	16.8
Foreign Affairs and International Trade	289	198	-31.5	1,166	1,334	14.4
Health	201	242	20.4	1,018	1,123	10.3
Human Resources and Social Development	140	161	15.0	811	1,085	33.8
Indian Affairs and Northern Development	369	450	22.0	2,415	2,456	1.7
Industry	145	143	-1.4	928	951	2.5
Other	1,009	784	-22.3	3,061	4,438	45.0
Total	2,306	2,254	-2.3	9,988	12,075	20.9
Total transfer payments	10,795	10,979	1.7	60,247	64,720	7.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	70	93	32.9	735	558	-24.1
Canada Mortgage and Housing Corporation	187	162	-13.4	945	1,152	21.9
Other	286	356	24.5	1,935	2,187	13.0
Total	543	611	12.5	3,615	3,897	7.8
Defence	1,293	1,643	27.1	7,829	8,922	14.0
All other departments and agencies	3,375	3,196	-5.3	20,570	21,556	4.8
Total other program expenses	5,211	5,450	4.6	32,014	34,375	7.4
<b>Total program expenses</b>	16,006	16,429	2.6	92,261	99,095	7.4
<b>Public debt charges</b>	2,707	2,546	-5.9	16,896	16,451	-2.6
<b>Total budgetary expenses</b>	18,713	18,975	1.4	109,157	115,546	5.9

Note: Totals may not add due to rounding.



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Table 4

## The budgetary balance and financial source/requirement

	September		April to September	
	2007	2008	2007-08	2008-09
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	11	-356	6,629	804
<b>Non-budgetary transactions</b>				
Capital investing activities	-345	-476	-1,499	-1,656
Other investing activities	-868	-1,459	-800	-13,993
Pension and other accounts	2,164	396	4,019	2,465
Other activities				
Accounts payable, receivables, accruals and allowances	2,107	5,704	-1,088	-3,306
Foreign exchange activities	1,712	-408	4,475	-1,937
Amortization of tangible capital assets	267	274	1,637	1,681
Total other activities	4,086	5,570	5,024	-3,562
<b>Total non-budgetary transactions</b>	5,037	4,031	6,744	-16,746
<b>Financial source/requirement</b>	5,048	3,675	13,373	-15,942

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	September		April to September	
	2007	2008	2007-08	2008-09
	(\$ millions)			
<b>Financial source/requirement</b>	5,048	3,675	13,373	-15,942
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-4,662	-7,422	-3,417	-2,143
Treasury bills	-5,400	2,700	-23,200	16,300
Canada Savings Bonds	-37	11	-397	-115
Other	-52	0	-551	-492
Total	-10,151	-4,711	-27,565	13,550
Foreign currency borrowings	-556	149	-731	-1,023
Total	-10,707	-4,562	-28,296	12,527
Cross-currency swap revaluation	-1,038	-602	-3,136	-354
Unamortized discounts on debt issues	96	38	96	374
Obligations related to capital leases	-14	-10	-92	-83
<b>Net change in financing activities</b>	-11,663	-5,136	-31,428	12,464
<b>Change in cash balance</b>	-6,615	-1,461	-18,055	-3,478

Note: Totals may not add due to rounding.

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2008	September 30, 2008	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	110,463	97,375	-13,088
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	253,550	251,407	-2,143
Treasury bills	116,936	133,236	16,300
Canada Savings Bonds	13,068	12,953	-115
Other	1,042	550	-492
Subtotal	384,596	398,146	13,550
Payable in foreign currencies	9,498	8,475	-1,023
Cross-currency swap revaluation account	-1,420	-1,774	-354
Unamortized discounts and premiums on market debt	-6,213	-5,839	374
Obligations related to capital leases	4,236	4,153	-83
Total unamatured debt	390,697	403,161	12,464
Pension and other accounts			
Public sector pensions	137,371	138,597	1,226
Other employee and veteran future benefits	47,901	49,165	1,264
Other pension and other accounts	5,895	5,870	-25
Total pension and other accounts	191,167	193,632	2,465
Total interest-bearing debt	581,864	596,793	14,929
<b>Total liabilities</b>	692,327	694,168	1,841
<b>Financial assets</b>			
Cash and accounts receivable	82,878	69,618	-13,260
Foreign exchange accounts	42,299	44,236	1,937
Loans, investments and advances (net of allowances)	50,869	64,862	13,993
<b>Total financial assets</b>	176,046	178,716	2,670
<b>Net debt</b>	516,281	515,452	-829
<b>Non-financial assets</b>	58,644	58,619	-25
<b>Federal debt (accumulated deficit)</b>	457,637	456,833	-804

Note: Totals may not add due to rounding.





